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COMMITTEE ON GOVERNMENT REFORM

ENRON ALL-EMPLOYEE MEETING

Second Quarter Results

Year 2000

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P R O C E E D I N G S

MR. LAY: Good morning.

[Chorus of good mornings.]

MR. LAY: Good morning.

[Chorus of good mornings.]

MR. LAY: There it is. We've got a packed house again, and we appreciate that. I think we had an overflow crowd outside, and some of you, apparently because of fire marshals and other people like that, may have to go back to your desk and watch this on the webcast. I'm sorry again we didn't have quite enough space, but this is the biggest place we've got close by.

Probably in more normal circumstances I would have had a few words, a few more words to say about September the 11th, because it obviously changed our world forever, probably forever, horrendous acts, terrorism, needless loss of lives.

I think we have now seen who the true heroes in our country are, again men and women of character who would be willing to run into burning buildings and give their life for other people or try to save other people. As somebody commented recently, I think we're looking to that event and the very courageous behavior during that event for heroes a

lot more than we're looking to Hollywood today, and that's probably not all bad.

But of course today we're going to talk about Enron, because just like America is under attack by terrorism, I think we're under attack, and we're going to talk about that today. I said in my phone mail and my e-mail we do have a lot to talk about. I've been reading your questions. You particularly want to hear more about LJM, the related party transaction which involved our Chief Financial Officer, and of course that is at the SEC inquiry, informal inquiry underway.

And I'm going to talk about all of that, and I'm going to try to talk about anything else you want to talk about in the Q and A. I will say that there are going to be some limitations, given we do have the SEC request, and that's what it is right now, request for some information, but certainly out of events like this you have lawsuits and other things that occur. And so I and others in the office might have limitations on some specific details, but we're going to be as candid as we can with you.

But before I discuss this, I think it important that you hear an abbreviated--of course originally we had planned a much larger--an abbreviated presentation on our

third quarter results from Greg Whalley, our President and Chief Operating Officer. These results were in fact very strong as the company continues to perform at a very high level.

But after Greg concludes his 10- or 15-minute presentation on the highlights of our third quarter results, I'm going to jump back in to talk about LJM and some other matters, and of course to take your questions. So Greg, if you would do that, please.

[Applause.]

MR. WHALLEY: Good morning. I want to thank everybody for coming today, and I do want to address our third quarter results. I'll try to be quick. There are a lot of issues to get to. It shouldn't take me more than about 10 minutes.

Despite the fact that we've done some resegmenting and some incremental disclosures on our business, which we will by the way continue on through the end of the year as we try to provide our balance sheets and allocated capital by these segments, we still can characterize them, at least for the time being, in these three broad groups: the transportation/distribution group, wholesale services group, and the retail services group.

The overall performance of the company was to report a net income increase of 35 percent over the prior--the relative quarter in the prior year.

As you look at the numbers, the transportation/distribution numbers, which includes natural gas pipelines, Portland General, and the global assets, reported at IBIT of \$87 million for the quarter compared to \$176 million for the same period a year ago. The primary results of the decline had to do with the earnings off of Portland General, and had to do with purchase of power to serve their load, which had declined in value. I will answer questions on that to the extent necessary.

The wholesale services business also reported substantial earnings growth, growth in IBIT of 28 percent, to \$754 million for the third quarter of 2001, compared to the \$589 million for the prior year. This increase was attributed to extremely strong growth throughout the business segment, especially in the energy businesses and Enron Americas.

The retail services business also reported positive quarterly IBIT of \$71 million, a 163 percent increase over a year ago. The profitability continues to accelerate very quickly in the business, and we're very

pleased with those results.

Enron's broadband segment reported a loss of \$80 million, which substantially exceeded the prior year, and we'll address some of the issues associated with broadband.

In total, we had a total IBIT of \$773 million, resulting in a net income of \$393 million. There are nonrecurring items written off, about \$1.01 billion. \$287 million of the write-down was related to the sale of Zurich **[Azurix]** and the write-down of certain Zurich **[Azurix]** assets in North America. \$183 million was associated with Enron broadband services, primarily associated with severance costs, write-down of inventory costs, as well as a write-down of contacts. \$544 million related to investments, primarily in new power and other broadband investments and technology investments, and the unwind of the facility that held them.

To talk more specifically of transportation/distribution, our natural gas pipeline system is one of the largest and most cost-effective in North America. Total combined, it moves approximately 15 percent of the total natural gas to the United States, with a peak capacity of about 10.8 bcf a day.

The outlook for the pipelines is excellent. Gas

demand in the United States continues to grow, primarily due to new gas-fired power generation, and a majority of our capacity is contracted under long-term contracts, and no new rate cases until the end of 2003.

We do continue to expand into high growth markets, to a total of approximately 2.2 bcf a day--get that slide up there--a total of 2.2 bcf a day into Florida by 2003. Trans Western is also expanding into Arizona and California, as well as Northern Border is finding new markets with more gas-fired power generation.

The growth in this business and the cash flow in this business is very strong and stable, and provides a solid base of cash flow for the corporation.

I do want to talk about global assets. The largest assets as listed here are Electro in Brazil, Dhabol [**Dabhol**] in India, and Cuiaba, also in Brazil. You can see the asset mix by location. We have talked over a period of time about scaling back these assets.

The global assets group has been moved in with Stan Horton, who has been managing our assets on the pipeline side for some time. Hopefully, we'll will be able to make them more efficient, reduce the costs, and increase the IBIT that we actually get out of these assets.

As to asset dispositions, we have this quarter closed a number of transactions which--or inked a number of transactions where we should be receiving the cash in the near future, to include the power plant assets in Puerto Rico, gas distribution assets in South America, EMP assets in India, and Portland General. And to the extent we want to get to talking about balance sheets later, we'll talk a little bit more about that.

Suffice to say, just to address that issue up front, despite the downgrade or the review for downgrade by Moody's, there are sufficient inked transactions to take our debt to total cap ratio, after these asset sales, to a level that's lower in fact than they were before we took the write-offs.

I want to talk about the wholesale services group, which has experienced substantial growth. Just to give you a couple of general items, physical settlements are up 65 percent; income before interest and taxes is up 28 percent. We had substantial increase in physical settlements, substantial increase in transactions, and our franchise in energy wholesale markets in North America continues to increase its lead in terms of physical volume settled, financial settlements, and transactions completed, and it

continues to extend that.

In Europe we have also begun to have some substantial penetration on the continent, with the number of transactions increasing, and we're hoping to expand that business well into the future. In the new markets, which we can talk about at some time--and I'd like to get everyone together, separate groups together for presentations on new markets that we're getting into--we're having substantial penetration and getting some real traction in some of the new markets that we're moving into. The results were very strong and I expect them to continue.

In the retail services business, income before interest and taxes was up substantially to \$171 million, \$71 million actually being done in this quarter. We're having significant penetration in this market, and significant growth in the number of new transactions, especially as we take the model in United States for the large consumer complete outsourcing and begin migrating that to Europe, and we take the small consumer model established with Enron Direct in Europe and begin applying it in the United States.

The number of customers that we are achieving there is beginning to grow, and our ability to penetrate downstream to further expand our presence in the energy

markets in the United States is absolutely critical to our continued growth and our strong position and franchise in both North American energy as well as European energy.

We're very pleased with these results and we're looking for strong growth into the future.

Enron broadband services was not the best quarter. We have had some difficulty there related to the continue deteriorating of the credit quality in the industry and certain consolidation there, reducing the number of counter-parties to be transacted with and the number of creditworthy counter-parties which can be transacted with in the future.

As such, we stated at the quarter we would begin scaling down this operation. We have done so, and we continue to try and size this operation to fit whatever opportunity is available in the future.

We would expect that in some period of time there would in fact be a substantial business available in broadband and band width intermediation, as well as network services around that. Given the current condition of the telecom industry, it's unclear at what point that will occur, and we'll have to scale this business down to a size where we can maintain the option to move into that business

in the future. We are considering all alternatives available to try and preserve this option to participate in a market which could be growing and expanding at some point in the future.

With those as results, I'll be happy to answer questions on those results later, and I will turn the presentation over to Mr. Lay.

[Applause.]

MR. LAY: Did you say anything at all about retail?

MR. WHALLEY: What's that?

MR. LAY: Did you say anything at all about retail?

MR. WHALLEY: Yes.

MR. LAY: You did?

MR. WHALLEY: Oh, yes.

MR. LAY: I missed it.

Thank you, Greg. As you can of course see, the underlying fundamentals of our businesses are very strong, indeed the strongest they have ever been. But regrettably, that's not what Wall Street is focusing on, and I doubt that's what you are focusing on. And let me say right up front, I am absolutely heartbroken about what has happened,

both the last few months and, more importantly, the last several days.

Now, having said that, and I'll say this probably once more, maybe twice more today, what was done a couple of years ago was done very appropriately. It was approved or reviewed and approved by inside auditors and accountants and outside auditors, and inside and outside lawyers, and of course the board of directors, and all the appropriate procedures were put in place to in fact make sure that Enron and its shareholders' best interests were served. It was appropriately disclosed.

But certainly the one thing I think nobody understood two years ago was how difficult it was to explain it, the perception of it. And certainly if we knew back then what we knew today, we wouldn't have done it, and we'll never do it again, anything like it.

Now, let me start off by giving just a little bit of history, because I think we need to put this and everything else this year in some kind of context. I was fortunate to be involved in forming the modern-day Enron in 1985, when two large pipeline companies, Inter North in Omaha, Nebraska and Houston Natural Gas here in Houston, were merged together.

We have had difficulties since 1985. Matter of fact, the merger was concluded in July of '85. The day after Christmas in '85, the Peruvian armed forces marched in and took control of one of our largest assets, an offshore oil and gas operation. One of the company's largest income producers and one of the company's largest cash flow producers was appropriated.

In 1986 oil and gas prices collapsed anywhere from two-thirds to three-quarters. We had a very high debt to total cap ratio, about 70 percent, over 70 percent. And then we had a couple of raiders come in and try to buy us, and we had a difficult time finding any other good alternative. Now, we finally worked that through and got rid of them, and moved ahead.

1987 we had a rogue oil trader in New York--I believe there were two of them, a trader and the treasurer--and indeed they went way beyond the limits that were imposed on them, exposing the company, and those exposures were so great that they could have taken the company down. It took us three weeks to unravel those--that was right in the middle, also, when there was a lot of gunfire in the Persian Gulf--to unravel those in such a way that we could in fact protect the company, and we still took

about a \$180 million write-off from the company, pretty small.

1997 we had a big gas contract in the North Sea that in fact had gotten out of the money because of some changes in policies in Great Britain, and we took a very large write-off on that, I think about \$650 million.

But let me say in each and every case the company has come back, and it has come back stronger than it was before these incidents, and that's exactly what I think is going to happen here.

And in the intervening years since 1985, we have transformed what was basically a very traditional regulated natural gas pipeline company with some other energy assets, into today what is the world's largest provider of natural gas and electricity, and recognized generally, although a little tarnished right now, as the preeminent company in our space. And indeed we will return to that preeminence, and we'll take that tarnish away with a little time.

And as sad as the current market price is, and certainly I've lost a substantial portion of my net worth and my family's net worth, at current prices the market value is about \$17 or \$18 billion. It was \$2 billion when we started in '85.

But I also know that many of you who were a lot wealthier six to nine months ago are now concerned about the college education for your kids, maybe the mortgage on your house, maybe your retirement, and for that I am incredibly sorry, but we're going to get it back.

Let me get into the LJM issue, and then I'll share with you some ways we can reduce the pain and hopefully restore Enron to its greatness, which I am fully committed to do.

LJM, first, what was it? It was primarily a private equity fund formed by Andy Fastow with Enron's approval. Again, after all the necessary approvals. It was formed in order to provide Enron an additional source of equity funding for projects and investments that would not otherwise be available to the company, and with a management structure that could provide reasonably quick approval of projects and investments because of Andy's familiarity with these projects and with the company.

But you should know Enron did not have to offer any projects to LJM. It had to be in the company's best interest to offer the projects and investments to LJM. Transactions were offered to LJM only when it was in Enron and its shareholders' best interest.

And because it was fully recognized from the beginning by Enron management and board that there was an inherent conflict of interest in Andy investing in LJM--along with a number of significant other investors, I might add, major banks--and being General Manager of LJM at the same time he was CFO at Enron, the Enron board put in place specific controls and procedures to protect Enron and its shareholders' interests.

I have reconfirmed over just the last few days that these controls and procedures have been adhered to. Both the structure of LJM as well as the controls and procedures were approved by Enron's accountants and our outside auditors, our inside and outside lawyers, and of course approved by our board, and then of course subsequently appropriately disclosed in all of our SEC filings for over two years.

I know this is a lot--there is a lot of speculation about Andy's involvement. As I said, management and the board recognized there was a potential conflict of interest. It was because of this that some very strict governance and control procedures were put in place, to make sure the best interests of Enron and its shareholders were always protected. And despite what you have read in the

Wall Street Journal and probably elsewhere, I'm sure that in fact these interests have been protected.

I and the board are also sure that Andy has operated in the most ethical and appropriate manner possible. But I will say here today in Andy's presence that if anything comes up indicating to the contrary, then a totally different decision would be made, just like it would for anybody else in a senior management job.

Let me make a few comments about the SEC investigation. This is what is referred to an informal inquiry. It is voluntary. It's a voluntary request for information, is what it technically is. It is not considered a material event, and thus not necessarily disclosable.

Indeed, about 80 percent of the companies that receive these informal requests do not disclose them, and we do not have to. But given the white-hot spotlight on Enron, and it is white-hot spotlight, we decided we should disclose it and the board agreed last Friday.

This inquiry will take a lot of time on the part of our accountants and lawyers and others, but it will finally put these issues to rest. This is the final and best arbiter to put these issues that have been talked about

to rest.

Now, what does all this mean for the future?

First, although the financial structures were approved by the inside and outside lawyers and all the rest of that, it has created way too much noise and way too bad a perception. And I, and I'm sure several others, are very sorry that this incredibly complicated thing ever happened and the damage was done to our image.

But more than being sorry, going forward we will be much more interested in simplicity. As I have said many times over the last several days, vanilla is just fine. Vanilla is just fine. Not to discourage creativity and innovation, that's what we're all about as a company, but don't get too fancy, don't get too complicated.

Also, as you know, Andy disposed of his management and economic interest in June of this year, so he's no longer involved in LJM, and LJM is no longer a related party vehicle.

In our third quarter report just one week ago--of course now it seems like a lifetime ago--we terminated a number of arrangements in which LJM had some involvement, some investment. And again, these vehicles also made sense at the time they were entered into. They do not make sense

now, so we terminated them, so there are no similar vehicles now in the company.

We also need to realize that although these vehicles may have made a lot of sense when they were set up, many of the investments did not work out well, and that was a bigger problem here than the fact that the structures were set up. And of course among those, new power company, broadband technologies, other technology stocks.

As part of that termination, that early termination, we did in fact take a reduction in equity of \$1.2 billion. That was talked about explicitly on the conference call Tuesday morning.

There was no attempt to conceal that. That again was something that did not have to be disclosed until the 10Q is filed in mid-November, but again in the interest of trying to get everything out, we put it in the conference call, and then of course a couple of days later got beat up because we didn't more prominently highlight it. But that also resulted in about a \$62 million share reduction in our deleted **[diluted]** share account, which obviously is a big positive for shareholders.

Now, let me conclude by saying a few other things that may be of some interest. I'll start off with bonuses.

Is that of any interest? And I know there has been some concern about it.

If we make our targets on a recurring basis, if we make our targets, bonuses will be full, full amount, based upon recurring earnings. And Greg and I have already, and Mark, have already gone through this with the compensation committee and the board, and they totally agree.

They also agree that we've got to do whatever is necessary to retain our talent, particularly in these turbulent times, because our talent is our franchise. And we will do everything we can to make sure that that talent is protected.

These are very turbulent and very tough times, and I expect we still have quite a bit more to come. I will do everything I can to turn it around. Certainly our management committee and MDs, who met yesterday morning for about three hours, came out of that room unified, and in fact are going to do everything they can to turn it around.

Now, it's okay to be mad, it's okay to be frustrated, it's okay to kind of feel the world is not fair, and probably all of those are very legitimate sentiments right now. But the company is doing well. Despite the rumors, despite the speculation, the company is doing well

both financially and operationally, and in fact we expect it to continue doing well. Our liquidity is fine. Matter of fact, it's better than fine, it's strong. We went through that on the conference call this morning.

And our balance sheet is strong, even with the write-offs. As Jeff said, with the transactions that are already under contract, by year end next year the balance sheet will have the lower debt to total cap ratio that it did before this write-off, and will be the strongest balance sheet that certainly we've had since the merger in '85. I don't know how far back you might go to find a stronger one.

But now is our testing time. These are tough times. Will we measure up to the challenge, or will we not? True character is born in times of crisis. I commented earlier about the true heroes that we saw on September the 11th. That was real character. But true character is born in times of crisis. We need to show our character as an organization.

And I will say also--this may be good news, may be bad news--that I am here until the board throws me out, or until we restore Enron to its greatness that most of us have experienced.

[Applause.]

MR. LAY: And now let me ask you to do the same. Commit yourself that you're going to redouble everything you do. You're going to focus harder, you're going to work harder, you're going to be more committed than you've ever been before. And we will come through this, and we will be stronger and better on the other side, and we will again be recognized by everyone as the greatest company in the energy business.

Thank you.

[Applause.]

MR. LAY: All right, we're down to questions. And I've got a few up here, but now I think as usual you've got cards. I hope people have been jotting down some thoughts or will jot down some thoughts, and I've got of course Greg and I've got really the whole management team here in front, so I think we can answer, among us hopefully answer most of them.

"In two sentences, can you please define Enron's business strategy?"

Probably could do it in even one sentence, but basically our business strategy today is to identify energy and commodity markets where we think we can apply our skills, including obviously our intellectual capital, our

skills, and in fact become the lead participant in those markets.

And of course we have extended that beyond energy, as you well know, in (inaudible) pulp and paper and lumber and of course coal and many other areas, and thus far that business model is working very well, very well. We've got some really great successes in areas outside of our traditional electricity and natural gas businesses, and I think we'll continue to see other successes.

Now, I know there has been a lot of interest, and I'm not going to answer this one today, but there's been a lot of interest in the company's vision and whether in fact we need a new vision. And I can't answer that today, but that's going to be something that the management committee is going to give a lot of thought to in the next few weeks, and we will see, because we are becoming quite a different company. But indeed, whatever the vision is, we will be the premier company in that space, and I think that we've got some good ideas on that.

"Having worked for 10 years and showing very little in my 401(k) and Enron being my primary stock, is there any speculation in the future to guaranteeing a pension for those who have put in 10 to 20 years or more?"

Of course, you have the regular pension as it is, and 401(k)'s are supplemental to that. And indeed I think we do have some options where you can put up to 5 percent of your salary into investments, into retirement type investments, and earn on that kind of a 10-year federal funds--or the bond rate, 10-year government bond rate. So those that want to kind of be risk-averse in this environment after the last few months, can in fact at least put cash in and a pretty good return on that cash over some period of time to be supplemental to your retirement, too.

Now, from the standpoint of Enron stock, we're going to bring it back. We're going to bring it back. We're going to do everything we can to get it back as quickly as we can, but we're going to bring it back. There are a lot of believers out there, as well as a lot of disbelievers.

"Our group recently requested permission to start working on the Enron-approved 9/80 flexible work schedules," and I'm going to summarize this a little bit, "but after only three weeks the vice president of our group decided we could not continue on the 9/80 schedules. Since our group was extremely happy with the schedule, we were very disappointed when it was taken away, even when it appeared

to be working successfully."

Well, we do give individual working groups a lot of flexibility in setting things such as hours and work schedules, as well as how they organize their space where they work and so forth. But in that case I would suggest first that go talk to you supervisor and, you know, communications is another one of our values.

And in the alternative or in addition to that, we've got Cindy Olson, who is now head of, among other things, employee relations, and really responsible for trying to take care of concerns and problems, among other people, concerns and problems of employees. So that will give you still one more avenue.

"Recently a Merrill Lynch report upgraded Enron stock to a good long-term investment, partly as a result of Enron's efforts to minimize debt. Will minimizing debt be the Enron strategy over the near term, and will this mean a moratorium on long-term investments in large capital assets like power plants?"

We'll continue to look for good investments in power plants, pipelines, gas distribution systems. We will look a lot less aggressively for those in developing countries, and we've already made that decision a long time

ago. We're going to deemphasize these big infrastructure projects in developing countries. We're going to sell a lot of those off. Greg gave you a list there of who they are, regionally.

But certainly we will still continue to make good investments in our core businesses, wherever we need to make those, where we see the good opportunities. And the core businesses, basically wholesale, retail, and pipelines.

Now, that can also include LNG facilities in some cases. We're developing a large LNG facility offshore Florida, and we're going to build a pipeline into Florida to bring that into the U.S. That can also include other related type investments, and of course increasingly now we're looking at things like pulp mills and paper mills and some other things as we get these new businesses moving.

Let me make another comment. I made this yesterday, I think at the managing directors' meeting. But clearly some of our big investments have not paid off. Some of that was shown in the third quarter results. Some of that is shown with the very low return we're getting from many of our large international assets in developing countries.

I think if we're to be faulted--first of all, I

also made the point that we weren't in the wholesale business a little over 10 years ago, and now that's an enormous and highly profitable business. And of course we weren't in the retail business about five years ago, and we think we have the business model there today where that can be a huge and highly profitable business. Of course we weren't on line two years ago, and of course that has become a very key part of our success in wholesale.

So we've got to tell you that we've also had successes along the way. We need more successes and probably fewer failures, but I think if we have made a mistake in some of these new ideas, and we don't want to cut off creativity or innovation, we probably threw too much capital at them too soon.

I think the truly great company of the future is going to be the ones that can be really nimble. They can change direction quickly. They can be creative and innovative, but be very disciplined in not committing too much capital until new concepts, new ideas, new businesses pan out. And I hope we can all take that to heart as we kind of look forward in our businesses.

"Despite the lowest interest rates"--I'm kind of waiting until we get some cards up here from the floor,

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because I think those are more current, not more current, but I'll take this next one. And Greg, I might ask you to come up here too and take a few of these, and Mark, you want to come up too. I always kind of like--see, I like to have somebody to kind of lay the tough ones off on.

[Laughter.]

I'll answer this next one here on the sheet first, and then I'll see who gets these.

"Despite the lowest interest rates on treasuries in my lifetime, Enron's internally reported cost of capital remains very high. What tangible steps is the executive committee taking to reduce the huge default premium built into our debt's price?"

Andy?

MR. FASTOW: [inaudible].

MR. LAY: Yeah, in the internal, in the internal, I think it's--yeah; it is.

MR. FASTOW: Is this on?

MR. LAY: There you go.

MR. FASTOW: Okay; is this working? Okay. I think the relevant cost of capital that everybody should be looking at for any investment they're making is what is the cost of capital that compensates Enron for the risks that

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Enron will then own when they make the investment. It is irrelevant, in my opinion, what our weighted average cost of capital is, what our cost of equity is, or what our marginal cost of debt is. If we are not going to get compensated for the risk that we're buying, then we shouldn't be making the investment.

So I think that's why the rack process, which is probably the best point to evaluate that, is so important. But it's up to any commercial person as well, who's making an investment, to make this evaluation themselves. It's not enough to just say I have an opportunity and I'm going to make this investment if it gets approved.

I think everyone has to take responsibility for making that determination, that in fact when we make an investment, the assumptions we use when we make that investment are going to come true. Did that answer the question?

MR. [Whalley]: Thank you, Andy.

Will EBS continue or will broadband continue to market for Enron, as well as three or four questions regarding the outsourcing of it, et cetera?

At this point in time we are considering whatever strategic alternatives are available. We believe that, over

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time, there should be the establishment of a viable and vibrant bandwidth and broadband marketplace. I will say that there are certain areas of uncertainty in the company and this is certainly one where we're gonna have to continue to evaluate that market as we go forward.

Needless to say, as we've moved over the pa--the course of the past six to nine months, the conter--the continued deterioration in that industry has extended out the date at which we believed there would be such a market established, and will continue to, to try and size our organization, appropriately, to make sure that, that we're not spending too much money in that regard, in going forward. We'll make all of these decisions as, as we go, but as you can see from the, from the credit quality, and a continued deterioration of the companies in the telecom space, it is pretty dire out there in the telecom space, and we'll continue to evaluate our, all of our options.

Some more broadband?

MR. **[Lay/Whalley]**: If you don't want to, or not yet. Why don't you go ahead and take one of yours.

MR. **[Frevert]**: Okay. A couple questions here.

What is my recourse, my real recourse when my

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supervisor does not respect my team ideas, and threatens to redeploy us if we do not do what he asks?

[Laughter.]

MR. **[Frevert]**: Well, first of all, you know, I think you probably ought to talk to that supervisor and see if you can work it out yourself, but it looks like that might not be possible here. So as Ken said, you do have recourse in a couple different ways. Talk to your HR rep. If that doesn't lead to any sort of solution, or towards any solution, Cindy and her team are available, and, you know, we're free, and the Office of the Chairman also, are very available to talk to people if you have problems with supervisors and problems with the organizational structure there.

So a number of recourses, and we do want to identify those types of supervisors that, that are providing that feedback, because that's just not something we're going to tolerate, it's not consistent with our values, and we'll take care of those problems as they arise.

MR. **[Frevert]**: Anything else?

MR. **[Lay]**: [inaudible].

MR. LAY: Yeah [inaudible]. A lot of these, I

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think I'm going to need to handle. Like this one.

I would like to know if you are on crack.

[Laughter.]

MR. LAY: I'll come back to the answer.

[Laughter.]

MR. : [inaudible].

MR. LAY: If so, that would explain a lot. If not, you may want to start because it's going to be a long time before we trust you again.

[Laughter.]

MR. LAY: I think that's probably not a very happy employee, and it's understandable. I'm sure a lot of you have some hatred. No; I'm not on crack.

[Laughter.]

MR. LAY: It might a been a lot easier to take the last few days if I was, but--

[Laughter.]

MR. LAY: In the past, we have made certain projections regarding our stock price based on different Enron business valuations. Based on the outlook today, what do you think is a fair price for our stock?

Well, let me say that probably the lowest valuation out there--and this is one that just came out

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recently but--John Olson, who is over at Sanders [ph], here, in Houston; but he is a well-respected analyst, very-respected analyst. His price is \$42 a share, and, and we have others as high, still, as \$80 a share, or more.

My personal view, if you kind a look at what would be fair, given our performance, but also given what's happened to broadband, what's happened to the markets, what's happened to multiple compression, everything else, and, you know, take into account some other [inaudible] in California, I think, certainly, we ought to be somewhere in the fifties. That'd be kind of a fair value today. You might even be able to argue for something in low sixties.

But, but, indeed, if we can get these uncertainties removed, and, and, and get back to somewhat more normal markets--that doesn't mean we can't get back up to the 80's or 90's in the not-too-distant future. But we gotta first kind a get through this mess now.

MR. [audience member]: [inaudible] falling apart, walks around the company knowing that he's selling his own personal shares and options, and saying that Enron stock is going to go to 110?

MR. LAY: That's fair. That's very fair. And Jeff did have some very aggressive numbers out there,

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including at the analysts meeting in January. But, but I will also say, really, up to the first quarter, even into the first quarter, I mean, eve--even, even then, it, it appeared that everything as on track to keep it in probably the 70's or 80's at least.

I would have been surprised if anybody'd been talking about 50's. Certainly not 40's. But, but there has been quite a, quite a shift, including September 11th. I mean, we've had an enormous shift in psychology, among other things, over the last several months.

Now we got a lot of Enron-specific issues to deal with, and, and we started dealing with some of those a week ago with the, with the write-offs, and, and I think with that, with that we have three major uncertainties still left. We've got broadband, and that's on the books, net, today, for about \$600 million, not an unreasonable valuation. You, you can always justify something less than that. We've got California where we are, we think fully reserved, could be more than adequately reserved, and the, again, the regulatory decisions, the settlements, et cetera, out there, are beginning to move [in] our direction, and--

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MR. LAY: Then you've got Indian, and we're doing

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both, we're still working to try to get a settlement out of India. By the same token, we're aggressively pursuing all of our legal remedies, and just like they were in '95, those are very significant. So, yeah, we, we gotta solve, we gotta solve our internal issues, but if we keep performing like we've been performing, we can get this stock value back. Now I don't want to be unrealistic about, you know, get--we're going to get it back to 80 in, in three months or six months. But we can certainly get it back into the 40's or 50's, and then of course from there, why, we'll see how--what, what--you know, how, how the market's doing, everything is going.

Let me just run through a few, if you don't mind.

In the past, we have made--I got that one.

Any layoffs planned for Enron's Houston office?

And let me say no, I mean--I say no. We, we can--we always have attrition, and, and probably the workforce is coming down a little bit right now, and it has been this, this whole year, and I would, I would expect that to continue.

But, but there are no big significant layoffs planned at any, any group that I'm aware of. So I think it's mainly just a matter, we'll keep fine-tuning the workforce, and try to make sure we've always got it right,

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just like they are in Europe right now, except they've got more significant attrition and, and layoffs over there.

But just trying to make sure we've got the cost structure right. These are tough times and we're going, we're going to have to make sure that we're just as efficient and effective as we, as we can be.

You want to take one?

MR. **[Whalley]**: There was, there was one question that came up a number of times, I understand, because of, because of how it was written up and reported, that had to do with what was the IR strategy and the reason for not including the \$1.2 billion hit directly to equity in the, in the release.

I know, I know Ken addressed this point already, and I want to say also that, that given the, the difficulties--or the comments that have been made, I wish we had put it in the release. There was no requirement to place it in the release. It was in that, in designing an earnings release, we designed a release about earnings. It was--in reading the earnings release, we attempted to track down in a conference call every one of the questions that would be asked about those earnings, which included this, this write-down of 1.2 billion in equity, and there was

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no--there was no strategy, conspiracy, or anything to not place this 1.2 billion hit to equity in the release, and we thought it was appropriately placed in the conference call.

MR. : Mark [?].

MR. **[Frevert]**: A couple more questions here. In the, in the future, looking forward to 2002, would Enron start to decrease benefits such as severance pay, vacation, medical, dental, and office space?

I think we did have a revision to the severance policy last year just to get us more in line with what other companies are, are paying sev--severance-wise, so, you know, there shouldn't be any changes going forward there.

Really no plans to, to decrease vacation. I'm sure that's what people are concerned about. So I think we'll continue forward on that basis.

As far as the medical and dental premiums, I think, right now, Enron pays for about 95 percent of the overall cost of those benefits to employees. You know, the company norm in the industry is about 80 percent. I think we recently announced that this year we're going to maintain that payout from the company covering about 95 percent of the medical and dental costs, but the next year and the following years, we're going to look to shift a little bit

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more of that back to the employee.

So we wanted to give you a year's notice, didn't want to do it in this type of environment but we will be shifting some additional costs to the employees over the next several years, starting with the 2003 plan, and as far as office space goes, I don't think there's really any changes there.

I think everybody--yo know, some of you have seen the new building, and we're moving to a very open floor plan concept. I think that's working very well. So we haven't heard a lot of complaints, here, recently.

And the second question: What are some of the new markets Enron is considering venturing into?

We've already made a great headstart, as Greg mentioned, in a number of areas. I think our European business continues to be very strong. That's a relatively new business over the last few years for Enron. Moving aggressively into new markets in continental Europe in both gas and power, and a lot of the businesses that Mike McConnell and his team are focused on in global markets show tremendous promise also.

Our weather business is taking off, our coal business is growing very rapidly, making good progress in

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our crude and products area, and a number of other businesses in Mike's shop, I think they're showing some tremendous potential, going forward.

Another area that we have very high hopes for is Jeff Mann [?] and Ray Bowing's [?] industrial markets group. That's the effort that really, really, for the first time, is trying to take our wholesale business model and extend it into new non-energy markets, and they're getting very good traction in the paper and pulp businesses, very good traction in the steel business, and we think those will be significant businesses, going forward, for us.

And all those businesses I mentioned are already profitable, so we're not going to the same issues we've had with broadband and, and retail, early on, in terms of incurring big losses for sustained periods of time.

So I think if these businesses kick in, we're going to see some tremendous, tremendous upside as far as earnings go.

MR. LAY: Given Enron's currently credibility issues with the investment community, shouldn't Enron fill its top management positions from outside the company?

I guess outsource management, or bring in other management. That's a fair question; that's a fair question.

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Let me say I think in fact we've got a very strong senior leadership group just as we've had yesterday as a group, yesterday morning for about three hours.

I did make a comment to them yesterday, in reference to a question, I think it was, but, you know, this management team wasn't probably as good as it appeared a year ago, but it's sure not as bad as it appears today, and, and, indeed, this, this is the team that can--

[Applause.]

MR. LAY: Some of you do. But this is the team that can, that can lead this, this company forward, and as, as you saw earlier in Greg's presentation, the operations, the financial performance and the operations are superb, and strong, particularly strong for a recessionary economy, and few if any companies our size can show those kind, that kind of performance.

We do have some credibility issues, and they're, they're not brand new. They've had some time to, you know, to percolate here, and, and we're addressing them as best we can. We addressed a few more this morning, and, and we're going to keep addressing 'em till they're all gone, and then of course they'll go on to the next target and start, start attacking that target.

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Will Mr. Fastow and his partners get to keep the money, or perhaps should they consider finding a better place for it? For example, investing in Enron stock or funding the Enron families who lose their jobs as a consequence of our stock problem?

[Applause.]

MR. LAY: Well, I think I'll answer that for Andy. I expect, first of all, that what he does with that money is his, is his own business. I will say Andy did buy some shares here, not too long ago, to show his, his, at least his, his confidence in the company. But, indeed, whatever, whatever happened on the other side of that wall was--in fact, as I said, it was approved, and whatever happened on the other side of that wall was, was up to Andy and his partners.

Are we ripe for a takeover or merger?

Certainly the price is low enough. The price is low enough, and I'm sure that, that at even a pretty good premium for this price, there's some people who might have some interest. We've not been contacted, but, but, indeed, another reason to try to get the, get, get this all turned around, and I think when we talked about this two months ago, I mean, the problem that many companies have is that

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they understand that the, that the value of Enron is in its intellectual capital, and that goes up and down the elevator every day.

And so unless it's a company that believes they can maintain or sustain this culture, and keep this talent base, they would be buying an "empty suit."

So we'll see, but we'll deal with that if and when it happens. But, right now, we just need to be thinking about how we just continue to make the company stronger. I'll take one more, Greg, and I'll let you--I think that's the same thing.

What is the status of the parking subsidy?

You know, [inaudible] found out something, maybe, that--what is the status of the parking subsidy? Anybody in the front row know? Parking subsidy. We, we--we stumped the whole group.

[Laughter.]

MR. LAY: Mark Frevert said "not enough."

MR. **[front row audience member]**: [inaudible]
always has been.

MR. LAY: It's always been fifty. It's \$50 a month. Now there's a good clean crisp answer. \$50 a month. All right, Greg.

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MR. : Well, I want [inaudible].

[Pause.]

MR. [Whalley]: No; go ahead.

MR. [Lay] : What other Enron employees are invested in LJM? To my knowledge, none. I mean, at least when you're, when you're invested in LJM, you were the only, one pers--only Enron employee that invested in LJM.

MR. [Fastow]: [inaudible].

MR. [Lay] : Michael Kopper [?] now has an interest.

MR. [Fastow]: [inaudible].

MR. [Lay] : He's no longer at Enron but he now--he was at Enron and now he has an investment in LJM.

MR. [audience member]: [inaudible].

MR. [Lay] : I think they could. You want to answer that?

MR. [audience member]: [inaudible].

MR. [Lay]: Now we didn't lose \$1.2 billion. Now let's, let's not confuse those two.

MR. [audience member]: [inaudible].

MR. [Lay] : Well, we, we adjust our equity but we also took 55--I mean, as far as the dilute--diluted share

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account, we took \$55 million--or 55 million shares out of the diluted share account as well as canceling a note receivable.

MR. [audience member]: [inaudible].

MR. [Lay]: Boy, I mean, it was risk capital on the other side, including the banks.

MR. [audience member]: [inaudible].

MR. [Lay] : We, we didn't guarantee it. We, we didn't guarantee it. I mean, there was risk capital there.

MR. [audience member]: [inaudible].

MR. [Lay] : Well, I suppose if invest--investments went bad, they lost some money, too. And of course they invest in a lot of different entities, and--are there any more off the--off-balance sheet special SPVs like Raptor, or funds like LJM, that need to be written down?

Was this \$1.2 billion write-down all or are there more hidden problems?

Well, first, again, this \$1.2 billion was not a write-down, or wasn't a problem. It was a matter--Rick, you want to explain that. Let's get, let's get the chief accounting officer up here to explain that.

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MR. CAUSEY: The, the adjustment to equity, the \$1.2 billion adjustment to equity related to an increase in fact of equity that we have recorded associated with shares that we were committed to deliver in the future, that we never delivered. So once the--we, we were gonna deliver shares in the future, we reported an increase in equity, appropriately, to reflect that, that commitment.

When that commitment was terminated as a part of terminating these, that, that increase in equity was reversed. As Ken said, it was actually 62 million shares that were reflected in our third quarter, fully diluted share calculation, that goes down by 62 million shares. Our full--our third quarter diluted share number was around 912 million shares. Our fourth quarter number will be around 850 million shares, reflecting that decrease, and so the 1.2--just to be clear again--the 1.2 billion reduction in equity did not relate to losses we took, or certainly losses we covered related to LJM, but, rather, related to shares we will never issue, that we had reflected as, as potentially issuable when we set these up.

[Mr. Whalley:] Are we going provide balance sheets on the various businesses to Wall Street? I made the comment earlier, and, and we are gonna attempt to, at the

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end of this year, and perhaps go--going forward on an annualized basis, to provide a balance sheet breakdown by business segment.

Now that involves some pretty detailed things as far as attributing long-term debt that's on the balance sheet to the various segments, assessing how much leverage is there and how much equity is there. But it is something that people want an incremental disclosure, to be able to look at the return on capital, the return on equity associated with the various businesses.

We're going to try to break that down and give that incremental disclosure.

Also a question about, about the survey results. Several questions about, about the "lay it on the line" survey and actions that are being taken.

We did put out a memorandum, the other day, talking about some of the actions that are being taken. We are making some modifications to the PRC. We do believe, as we've stated in the, in the memorandum, that went out in e-mail, that we do believe that a relative evaluation of people for the purposes of determining what skill sets you have, the quality of the talent base you have, what management gaps that you may have is absolutely critical.

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We do know that it has, has led to some discomfort in how the process was handled, and we're looking at how we can make that a little bit easier, and as we've said, the process that we're asking for at this point in time requires the identification of the top and bottom 10 percent, and I believe we're only asking that, that the mandatory delivery of that occur once a year. To the extent a business unit finds a need to do something greater than that, that would be up to the heads of the various business units. There'll be more information coming on this. If you want some more information on what's going on regarding the results, please speak to Cindy Olson.

MR. [Frevert]: A couple more questions here.

Please explain why we are redeploying American citizens and leaving foreign nationals employed in the U.S.

As far as redeployment goes, I think the redeployment is really driven almost exclusively by business unit needs. If we're oversized or overstaffed, or in businesses that aren't performing well, we're gonna move people out of those. So it really has nothing to do with whether somebody's an American or a foreign national. We're redeploying people in some of our U.S. businesses. We're also redeploying people in our European businesses.

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I think some of you read about some of the cutbacks that are going on in Europe. That's really a normal course of the business cutback.

We are tryign to cut about 5 to 10 percent of the overall employee base becasue certain businesses just weren't going to generate the returns that we had expected. So we cut back a little bit there. Virtually all of those, all of those employee cutbacks were done voluntarily. I mean, we had over 300 people that accepted the voluntary severence plan, which means that virtually nobody is gonna be asked to move out that didn't want to.

So I think it's important also to keep in mind that as, as we continue to grow, we are a global company. We've got tremendous talent in Europe, we've got tremendous talent in North America and our South American operations, our Asian operations, and we're always gonna want to move poeple around. So hopefully we're going to continue to have people from Europe and South America in North America and vice-versa.

I think that's going to be a real key to continue to grow on a, on a global basis.

The second question. Please comment on consideration given to repricing epmloyee options.

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I think we've talked about this a little bit before. It's really not something that, that we would consider or that the board would consider, or the Comp Committee would consider. We think there's other ways we can continue to get equity out into people's hands and help people share in the upside as the stock price rebounds, but repricing options would destroy credibility, entirely, with our shareholder base, our outside investors, and it's just not something we could really do at this time, or probably in the future either.

Adn then, finally, any truth to the rumor that the Christmas party will be a company-wide event at Enron Field?

Yes.

MR. **[Frevert]**: Yes.

[Laughter.]

MR. LAY: And let me say on the, on the stock option questoin, of course this year we had a special one-year stock option award, and we've not made any decision for next year, we'll surely look at it, but hopefully the next year it'll become a lot less than this year.

I htink we've got time for just a few more.

You say that earnings are strong and we are performing well, but how much of htis is actually realized?

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Are we going to be more conservative in the future in determining the fair value of some of our transactions and investments?

We've, we've gone through this, and, and for the most part we think we've been pretty conservative. Now, in some cases, we of course have been surprised later, but I think the more important question is whether we can get cash tracking the earnings closer, and, certainly, we're, we're working hard on that, and I think in fact we will get there.

I mean, this year a lot of improvements have been made, and I think in future years it will.

Street.com referenced two trusts, one a billion dollar trust, two--another 2.4 billion trust, asked how we were going to cover those liabilities, and our response has been asset sales. How are we going to improve our debt into--debt ratio of asset sales recovering these trusts?

Well, matter of fact the two trusts they're referring to have a bunch a assets in them, adn those assets are primarily energy assets, nicluding large power plants with long-term contracts behind them, long-term power purchase agreements behind them, and, indeed, based on the valuations, the most recent valuations, those assets are, are adequate to cover those trusts.

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And those are public trusts. I mean, all of the--and that's not like LJM, and that's not like some of the others. But, but, indeed, it shows how, how some people are using various places to try to get people thinking about things that--we had a question like that on, on the conference call this morning.

Now I think the calculation there was if, if they all, if they all went to zero and we had to fund them, which is a too, too--extreme examples, then, in fact, you've got to issue another--I forgot what the number was this morning, but it's probably about 12, 14 percent of equity, which, you know, is quite a bit. But, but that's if everything went to zero, and of course if we didn't--if, if both those triggers that we don't think will trigger happen. That's the \$80 stock option.

According to financial reports, Enron execs have, have redeemed over \$700 million in stock options the past 12 months, and, and most of those executives are no longer with the company. This an example of executive compensation out of control and, and leaves little incentive for those employees who actually have to work.

[Laughter; applause.]

MR. LAY: [inaudible] stock price, and et cetera,

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et cetera. Are we going to reconsider compensatoin?

Basically, the compen--first of all, the compensation is not something we pull out of the air. I mean, it's based on a lot of analysis done by outside consultants on, on comparing positoins, comparing compensation, what it, what it takes to kind of both attact those kind of, people to those kind of positions and retain 'em.

Now in some cases, including the last two or three years, our stock price went up significantly more than probably was assumed in the model. That was also true of a lot of other companies, I might add. And so compensation was somewhat greater than was expected. And as to whether they cash in or not, that's an nividual coice.

But we will continue to be copetitive, but we're not trying to be reckless, and, ceratinly, the Comp Committee's looking at that all the time, to make sure that it is reasonable.

Waht is teh status of resolving the dispute with India regarding the Dhabol [**Dabhol**] project?

I think I answered that but I will add one more thing. The prime minister of India's coming to the U.S. to meet with President Bush in November, I think it's November

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9th, and so, again, there's a, there's a great push on their side to see if it can get resolved between now and November 9th.

Now I've not seen 'e do much of anything of consequence in two or three weeks, so I'm not really expecting much, but at least we're, we're back at the table and trying to see what we can do.

Analysts have been complaining that Enron's balance sheet looked enigmatic for some time now. Related party transactions added more mystery to their work.

How are we going to restore our reputation on Wall Street? What steps we're going to take.

Well, I think the steps, like we took last week, of early termination of the Raptor, the Raptor events, try to be just as transparent and candid with, with Wall Street as we can, as we were this morning for about an hour on, on a conference call, and just keep answering their questoins.

Now we don't have any more vehicles like Raptor. We don't have any more vehicles like LJM. We don't have any related-party transactoins. We're just trying, trying to clean it up. As I said, vanilla is just fine; vanilla is just fine.

How shoudl our bonuses this year compare with last

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year?

If on a recurring basis, and a target basis, we did better than last year, odds are you'd get a little bit better bonus, if you performed outstandingly.

I need--we need--I'm sorry?

MR. **[audience member]**: [inaudible].

MR. LAY: In any event, I want to go back to what I talked about before. These are tough times, and, adn there's, there's plenty of understanding as to why some poele are hostile, and you have, you have a reason to have some concerns. We've all been damaged. We've all been attacked, both individually and as a company, and as a group.

But what I would ask you to do is, is to recommit to the company and do the very best job you can, whateer group you're in, and we will come through this. As I said earlier, we will come through this stronger. This is a time that will build some character, and tough times always build character. But we will come through it and we will be even a greater company on the other side.

So thanks very much.

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